

**REPORT OF THE AUDIT OF THE  
CALLOWAY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
CALLOWAY COUNTY FISCAL COURT**

**June 30, 2005**

The Auditor of Public Accounts has completed the audit of the Calloway County Fiscal Court for fiscal year ended June 30, 2005. We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Calloway County, Kentucky.

**Financial Condition:**

The fiscal court had unrestricted net assets of \$5,249,780 in its governmental funds as of June 30, 2005, with total net assets of \$9,904,066. In its enterprise fund, total cash and cash equivalents were \$34,502 with total net assets of \$41,752. The fiscal court had total debt principal as of June 30, 2005 of \$6,945,375 with \$528,612 due within the next year.

**Report Comments:**

- Vending Machine Funds Should Be Accounted For Properly - Courthouse
- Vending Machine Funds Should Be Accounted For Properly - Jail
- Jail Canteen Funds Should Be Properly Expended In Accordance With KRS 441.135
- Debt Service Expenditures Should Be Properly Classified
- The Accounting System Of The Calloway County Jail Should Be Improved

**Deposits:**

The county's deposits were not fully insured and collateralized by bank securities. As of August 31, 2004, \$276,430 of the county's deposits were not secured by collateral at the county's financial institutions.



<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
CALLOWAY COUNTY OFFICIALS .....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS .....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	23
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	35
NOTES TO FINANCIAL STATEMENTS.....	38
BUDGETARY COMPARISON SCHEDULES .....	57
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	61
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	65
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	69
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	73
COMMENTS AND RECOMMENDATIONS.....	77
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Larry Elkins, Calloway County Judge/Executive  
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calloway County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Calloway County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Larry Elkins, Calloway County Judge/Executive  
Members of the Calloway County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Calloway County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2006 on our consideration of Calloway County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comments:

- Vending Machine Funds Should Be Accounted For Properly - Courthouse
- Vending Machine Funds Should Be Accounted For Properly - Jail
- Jail Canteen Funds Should Be Properly Expended In Accordance With KRS 441.135
- Debt Service Expenditures Should Be Properly Classified
- The Accounting System Of The Calloway County Jail Should Be Improved

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 3, 2006



CALLOWAY COUNTY OFFICIALS

For The Year Ended June 30, 2005

**Fiscal Court Members:**

Larry Elkins	County Judge/Executive
Gerald Duncan	Magistrate
Johnny Gingles	Magistrate
Steve Lax	Magistrate
Bobby Stubblefield	Magistrate

**Other Elected Officials:**

David Harrington	County Attorney
Phil Hazle	Jailer
Ray Coursey, Jr.	County Clerk
Vicki Wilson	Circuit Court Clerk
Larry Roberts	Sheriff
Ronnie Jackson	Property Valuation Administrator
Mike Garland	Coroner

**Appointed Personnel:**

Sue Jones Outland	County Treasurer
Dawn Gaskin	Finance Officer
Rita Burton	Personnel or Payroll Officer
Jodie Brooks	Road Supervisor
Ed Pavlick	911 Administrator
Julie Robertson	Jail Administrative Assistant/Bookkeeper
Michelle Corum	Deputy Judge

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**CALLOWAY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 6,186,727	\$ 34,502	\$ 6,221,229
Total Current Assets	6,186,727	34,502	6,221,229
Noncurrent Assets:			
Land and Land Improvements	713,227		713,227
Capital Assets - Net of Accumulated Depreciation			
Buildings	8,260,682		8,260,682
Vehicles	322,598	7,250	329,848
Equipment	841,273		841,273
Infrastructure Assets - Net of Depreciation	524,934		524,934
Total Noncurrent Assets	10,662,714	7,250	10,669,964
Total Assets	16,849,441	41,752	16,891,193
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	390,000		390,000
Financing Obligations Payable	138,612		138,612
Total Current Liabilities	528,612		528,612
Noncurrent Liabilities:			
Bonds Payable	6,225,000		6,225,000
Financing Obligations Payable	191,763		191,763
Total Noncurrent Liabilities	6,416,763		6,416,763
Total Liabilities	6,945,375		6,945,375
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	3,717,339	7,250	3,724,589
Restricted For:			
Debt Service	936,947		936,947
Unrestricted	5,249,780	34,502	5,284,282
Total Net Assets	\$ 9,904,066	\$ 41,752	\$ 9,945,818

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**CALLOWAY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 3,239,814	\$ 62,292	\$ 553,481	\$ 300,000
Protection to Persons and Property	1,560,950	1,109,336	224,904	153,065
General Health and Sanitation	147,800	11,654	30,000	
Social Services	22,575		597,410	
Recreation and Culture	226,367			78,841
Roads	1,387,852	62,833	1,065,222	150,000
Bus Services	47,790			
Interest on Long-term and Short-term Debt	376,213			
Capital Projects	87,839			
Total Governmental Activities	<u>7,097,200</u>	<u>1,246,115</u>	<u>2,471,017</u>	<u>681,906</u>
Business-type Activities:				
Jail Canteen	262,954	253,898	8,144	
Total Business-type Activities	<u>262,954</u>	<u>253,898</u>	<u>8,144</u>	
Total Primary Government	<u>\$ 7,360,154</u>	<u>\$ 1,500,013</u>	<u>\$ 2,479,161</u>	<u>\$ 681,906</u>

**General Revenues:**

Taxes:

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Deed Transfer Taxes  
Bank Franchise Taxes  
Franchise Taxes  
Other Taxes

In Lieu of Tax Payments

Excess Fees

Legal Process

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**CALLOWAY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (2,324,041)	\$	\$ (2,324,041)
(73,645)		(73,645)
(106,146)		(106,146)
574,835		574,835
(147,526)		(147,526)
(109,797)		(109,797)
(47,790)		(47,790)
(376,213)		(376,213)
(87,839)		(87,839)
(2,698,162)		(2,698,162)
	(912)	(912)
	(912)	(912)
(2,698,162)	(912)	(2,699,074)
1,943,091		1,943,091
141,843		141,843
471,454		471,454
104,828		104,828
87,175		87,175
113,188		113,188
94,527		94,527
166,004		166,004
122,728		122,728
239		239
426,748		426,748
121,903	393	122,296
3,793,728	393	3,794,121
1,095,566	(519)	1,095,047
8,808,500	42,271	8,850,771
\$ 9,904,066	\$ 41,752	\$ 9,945,818

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**CALLOWAY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Jail Construction Fund</b>	<b>Jail Grant Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 110,205	\$ 47,527	\$ 216,890	\$ 3,446,810	\$ 1,428,347
Total Assets	<u>\$ 110,205</u>	<u>\$ 47,527</u>	<u>\$ 216,890</u>	<u>\$ 3,446,810</u>	<u>\$ 1,428,347</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 7,032	\$ 33,376	\$ 23,704	\$	\$
Unreserved:					
General Fund	103,173				
Special Revenue Funds		14,151	193,186		
Capital Projects Fund				3,446,810	1,428,347
Debt Service Fund					
Total Fund Balances	<u>\$ 110,205</u>	<u>\$ 47,527</u>	<u>\$ 216,890</u>	<u>\$ 3,446,810</u>	<u>\$ 1,428,347</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Changes In Net Assets:**

Total Fund Balances	\$ 6,186,727
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	13,040,166
Depreciation	(2,377,452)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(330,375)
Bonded Debt	(6,615,000)
Net Assets Of Governmental Activities	<u>\$ 9,904,066</u>

The accompanying notes are an integral part of the financial statements.

**CALLOWAY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Public Properties Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 936,947</u>	<u>\$ 1</u>	<u>\$ 6,186,727</u>
<u>\$ 936,947</u>	<u>\$ 1</u>	<u>\$ 6,186,727</u>
\$	\$	\$ 64,112
	1	103,174
		207,337
		4,875,157
<u>936,947</u>	<u></u>	<u>936,947</u>
<u>\$ 936,947</u>	<u>\$ 1</u>	<u>\$ 6,186,727</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**CALLOWAY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Jail Construction Fund</b>
<b>REVENUES</b>				
Taxes	\$ 1,977,121	\$	\$	\$ 963,045
In Lieu Tax Payments	165,094			910
Excess Fees	122,728			
Licenses and Permits	50,654			
Intergovernmental Revenues	488,256	1,260,464	1,195,047	4,519
Charges for Services	11,654		16,917	
Miscellaneous	1,044,158	170,468	109,514	
Interest Earned	1,346	418	334	67,922
Total Revenues	<u>3,861,011</u>	<u>1,431,350</u>	<u>1,321,812</u>	<u>1,036,396</u>
<b>EXPENDITURES</b>				
General Government	1,761,042			1,071
Protection to Persons and Property	118,655	193,818	1,083,615	
General Health and Sanitation	145,830			
Social Services	47,726			
Recreation and Culture	194,416			
Roads		1,798,050		
Airports	47,790			
Debt Service	11,638	77,110		
Capital Projects	35,678	52,161		
Administration	1,148,791	157,255	157,375	3,041
Total Expenditures	<u>3,511,566</u>	<u>2,278,394</u>	<u>1,240,990</u>	<u>4,112</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	349,445	(847,044)	80,822	1,032,284
<b>Other Financing Sources (Uses)</b>				
Issuance of Financing Obligation	22,790	289,630		
Transfers From Other Funds	600,000	720,000	120,000	400,000
Transfers To Other Funds	(1,120,000)	(200,000)		(876,679)
Total Other Financing Sources (Uses)	<u>(497,210)</u>	<u>809,630</u>	<u>120,000</u>	<u>(476,679)</u>
Net Change in Fund Balances	(147,765)	(37,414)	200,822	555,605
Fund Balances - Beginning (Restated)	257,970	84,941	16,068	2,891,205
Fund Balances - Ending	<u>\$ 110,205</u>	<u>\$ 47,527</u>	<u>\$ 216,890</u>	<u>\$ 3,446,810</u>

The accompanying notes are an integral part of the financial statements.



**CALLOWAY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Jail Grant Fund</b>	<b>Public Properties Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$	\$ 2,940,166
			166,004
			122,728
			50,654
153,065	329,202	8,047	3,438,600
			28,571
			1,324,140
32,415	19,468		121,903
<u>185,480</u>	<u>348,670</u>	<u>8,047</u>	<u>8,192,766</u>
			1,762,113
			1,396,088
			145,830
			47,726
			194,416
		8,047	1,806,097
			47,790
	733,028		821,776
			87,839
	735		1,467,197
<u></u>	<u>733,763</u>	<u>8,047</u>	<u>7,776,872</u>
185,480	(385,093)		415,894
			312,420
	356,679		2,196,679
			(2,196,679)
<u></u>	<u>356,679</u>	<u></u>	<u>312,420</u>
185,480	(28,414)		728,314
1,242,867	965,361	1	5,458,413
<u>\$ 1,428,347</u>	<u>\$ 936,947</u>	<u>\$ 1</u>	<u>\$ 6,186,727</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**CALLOWAY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 728,314
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Proceeds From Sale of Capital Assets	(31,000)
Loss On Sale Of Capital Assets	(10,068)
Capital Outlay	564,010
Depreciation Expense	(288,833)
<p>The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, while Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.</p>	
Financing Obligation Proceeds	(312,420)
<p>Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.</p>	
Financing Obligations Principal Amount	80,563
Bond Payments	<u>365,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,095,566</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**





**CALLOWAY COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 34,502
Total Current Assets	34,502
Noncurrent Assets:	
Capital Assets:	
Vehicle	8,000
Less Accumulated Depreciation	(750)
Total Noncurrent Assets	7,250
Total Assets	41,752
<b>Net Assets</b>	
Invested in Capital Assets,	
Net of Related Debt	7,250
Unrestricted	34,502
Total Net Assets	\$ 41,752

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**CALLOWAY COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts/Inmate Deposits	\$ 253,898
Total Operating Revenues	253,898
<b>Operating Expenses</b>	
Commissary Supplies	82,377
Educational and Recreational	1,408
Inmate Insurance	7,888
Vehicle Maintenance	3,871
Depreciation	750
Personnel	15,763
Miscellaneous	857
Total Operating Expenses	112,914
Operating Income (Loss)	140,984
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	393
Inmate Pay From State	8,144
Inmate Refunds	(150,040)
Total Nonoperating Revenues (Expenses)	(141,503)
Change In Net Assets	(519)
Total Net Assets - Beginning (Restated)	42,271
Total Net Assets - Ending	\$ 41,752

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**





**CALLOWAY COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Inmates	\$ 253,898
Educational and Recreational	(1,408)
Commissary Supplies	(82,377)
Inmate Insurance	(7,888)
Vehicle Maintenance	(3,871)
Personnel Costs	(15,763)
Miscellaneous	(857)
Net Cash Provided By Operating Activities	141,734
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay From State	8,144
Inmate Refunds on Accounts	(150,040)
Net Cash Used By Noncapital Financing Activities	(141,896)
<b>Cash Flows From Capital and Related Financing Activities</b>	
Capital Asset-Van	(8,000)
Net Cash Used By Capital and Related Financing Activities	(8,000)
<b>Cash Flows From Investing Activities</b>	
Interest Earned	393
Net Cash Provided By Investing Activities	393
Net Decrease in Cash and Cash Equivalents	(7,769)
Cash and Cash Equivalents - July 1 (Restated)	42,271
Cash and Cash Equivalents - June 30	\$ 34,502

The accompanying notes are an integral part of the financial statements.

**CALLOWAY COUNTY**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>Business-Type Activities - Enterprise Fund</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	<b>Jail Canteen Fund</b>
Operating Income	\$ 140,984
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>750</u>
Net Cash Provided By Operating Activities	<u><u>\$ 141,734</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	38
NOTE 2.	DEPOSITS .....	44
NOTE 3.	CAPITAL ASSETS .....	45
NOTE 4.	SHORT-TERM DEBT.....	46
NOTE 5.	LONG-TERM DEBT .....	47
NOTE 6.	INTEREST ON SHORT-TERM DEBT, LONG-TERM DEBT, AND FINANCING OBLIGATIONS .....	49
NOTE 7.	COMMITMENTS AND CONTINGENCIES .....	50
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM.....	51
NOTE 9.	DEFERRED COMPENSATION .....	51
NOTE 10.	INSURANCE .....	51
NOTE 11.	PRIOR PERIOD ADJUSTMENTS .....	52

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Calloway County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Calloway County Public Properties Corporation**

The Calloway County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended with the Calloway County's financial statements.

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Calloway County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Calloway County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Calloway County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Construction Fund - The purpose of this fund is to account for tax revenues generated for the payment for the new jail. Current debt payments are transferred to the Public Properties Corporation for payment when due.

Jail Grant Fund - This fund was established to isolate state grant proceeds intended to offset construction costs of the county jail. These funds and associated earnings are intended to be used for future repayments of the jail debt.

Public Properties Corporation Fund - The purpose of this fund is to account for transfers in from the Jail Construction Fund and lease payments made by the Administrative Office of the Courts (AOC) for the payment of debt on the Jail and Judicial Building Bond Issues.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and the Community Development Block Grant Fund (CDBG).

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Special Revenue Funds:

The Road Fund, Jail Fund, and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Jail Construction Fund and Jail Grant Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.



**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office of Local Development does not require the Public Properties Corporation to be budgeted because debt payments are budgeted in other funds and transferred to the Public Properties Corporation.

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Calloway County Fiscal Court:

Economic Development Authority  
 Faxon Fire District  
 Fire District #5  
 Almo/Dexter Water District  
 Water District #2  
 Extension District

Almo-Dexter Fire District  
 Fire District #2  
 Fire District #6  
 641 Water District  
 Lynn Grove Water District  
 Library District

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)**

Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Calloway County Fiscal Court:

Murray-Calloway County Hospital

The Calloway County Fiscal Court (Fiscal Court) has retained an ongoing financial interest for the Murray-Calloway County Hospital. The Hospital is a joint venture between Fiscal Court and the City of Murray “to promote health and welfare and the development and operation of a viable integrated health delivery system” for the county, city, and surrounding communities. The Fiscal Court and City of Murray have equal ownership rights (50%) and are the exclusive members of the Hospital.

Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly governed organizations of the Calloway County Fiscal Court:

Murray-Calloway County Park  
Murray-Calloway County Airport

Murray Calloway County Senior Citizens  
Murray-Calloway County Transit Authority

**Note 2. Deposits**

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County’s deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2004, \$276,430 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$276,430

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 688,076	\$ 25,151	\$	\$ 713,227
Total Capital Assets Not Being Depreciated	688,076	25,151		713,227
Capital Assets, Being Depreciated:				
Buildings	9,973,926			9,973,926
Vehicles	435,152	102,380		537,532
Equipment	1,219,304	183,463	(140,680)	1,262,087
Infrastructure	300,378	253,016		553,394
Total Capital Assets Being Depreciated	11,928,760	538,859	(140,680)	12,326,939
Less Accumulated Depreciation For:				
Buildings	(1,516,305)	(196,939)		(1,713,244)
Vehicles	(185,559)	(29,375)		(214,934)
Equipment	(476,354)	(44,072)	99,612	(420,814)
Infrastructure	(10,013)	(18,447)		(28,460)
Total Accumulated Depreciation	(2,188,231)	(288,833)	99,612	(2,377,452)
Total Capital Assets, Being Depreciated, Net	9,740,529	250,026	(41,068)	9,949,487
Governmental Activities Capital Assets, Net	<u>\$ 10,428,605</u>	<u>\$ 275,177</u>	<u>\$ (41,068)</u>	<u>\$ 10,662,714</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicle	\$	\$ 8,000	\$	\$ 8,000
Total Capital Assets Being Depreciated		8,000		8,000
Less Accumulated Depreciation For:				
Vehicle		(750)		(750)
Total Accumulated Depreciation		(750)		(750)
Business-Type Activities Capital Assets, Net	\$	\$ 7,250	\$	\$ 7,250

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 15,584
Protection to Persons and Property	174,862
General Health and Sanitation	1,970
Recreation and Culture	31,951
Roads, Including Depreciation of General Infrastructure Assets	<u>64,466</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 288,833</u>

Business-Type Activities:

Protection to Persons and Property (Jail Canteen)	<u>\$ 750</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 750</u>

**Note 4. Short-term Debt**

**A. Transit Authority-Financing Obligation**

On February 22, 2005, Calloway County entered into a financing agreement with the Kentucky Association of Counties for \$22,790. These proceeds were to be used to repair equipment owned by the Murray-Calloway County Transit Authority. The terms of the agreement is for the total principal plus interest of 2.175 percent to be repaid within six months. As of June 30, 2005, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2005 was \$11,337. Future principal and interest payments are as follows:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	<u>\$ 11,337</u>	<u>\$ 35</u>

**B. Changes In Short-term Debt**

Short-term debt activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Financing Obligation	<u>\$</u>	<u>\$ 22,790</u>	<u>\$ 11,453</u>	<u>\$ 11,337</u>	<u>\$ 11,337</u>
Governmental Activities					
Short-term Debt	<u>\$</u>	<u>\$ 22,790</u>	<u>\$ 11,453</u>	<u>\$ 11,337</u>	<u>\$ 11,337</u>

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt**

**A. Detention Facility Bonds-Series 1996-Revenue Bonds**

On November 14, 1996, Calloway County authorized the Public Properties Corporation to issue up to \$4,545,000 of Revenue Bonds, Series 1996. These bonds were issued to retire Revenue Bonds Anticipation Notes, Series 1995, dated July 1, 1995 and to provide long-term financing for the Calloway County Detention Facilities. These bond pay interest at the rate of 5.2 percent and are secured by the facilities, contents, and revenue stream created by such assets. As of June 30, 2005, the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2005 were \$3,270,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 205,000	\$ 170,040
2007	215,000	159,380
2008	225,000	148,200
2009	235,000	136,500
2010	250,000	124,280
2011-2015	1,450,000	413,400
2016-2017	690,000	54,340
Totals	<u>\$ 3,270,000</u>	<u>\$ 1,206,140</u>

**B. Court Facility Bonds-Series 1997-Revenue Bonds**

On March 13, 1997, Calloway County authorized the Public Properties Corporation to issue up to \$4,420,000 of Revenue Bonds, Series 1997. These bonds were issued to provide funding for the construction and equipment of and for the Court Annex Facility. These bonds pay a variable interest rate of 4.75 to 5.625 percent. These bonds are secured by the facility and contents as well as the lease proceeds from the Kentucky Administrative Office of the Courts. As of June 30, 2005, the Public Properties Corporation was in compliance with the terms of the issuance. Bonds outstanding as of June 30, 2005 were \$3,345,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 185,000	\$ 179,708
2007	195,000	170,458
2008	205,000	160,708
2009	215,000	150,458
2010	225,000	139,708
2011-2015	1,320,000	504,945
2016-2018	1,000,000	115,594
Totals	<u>\$ 3,345,000</u>	<u>\$ 1,421,579</u>

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. Road Gradall-Financing Obligation**

On December 15, 2001, Calloway County entered into a financial agreement with Public Finance, Inc. to purchase a road gradall for \$157,341. On January 3, 2002, this agreement was assigned to Old National Bank. Terms of the agreement consist of five annual payments of \$35,832 due December 26 of each year. As of June 30, 2005, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2005 was \$67,110. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 32,818	\$ 3,014
2007	34,292	1,540
Totals	<u>\$ 67,110</u>	<u>\$ 4,554</u>

**D. Road Equipment-Financing Obligation**

On April 19, 2005, Calloway County entered into a financial agreement with BB&T Bank to purchase road equipment for \$150,000. The terms of this agreement consist of thirty-six principal and interest payments due monthly at an interest rate of 3.8 percent. As of June 30, 2005, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2005 was \$146,060. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 48,268	\$ 4,715
2007	50,134	2,849
2008	47,658	910
Totals	<u>\$ 146,060</u>	<u>\$ 8,474</u>

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**E. Road Equipment-Financing Obligation**

On September 2, 2004, Calloway County entered into a financial agreement with the Kentucky Association of Counties to purchase road equipment for \$139,630. The terms of this agreement consist of thirty-six principal and interest payments due monthly at a variable interest rate of 2.175 percent. (Effective July 2005, interest rate increased to 4.25 percent.) As of June 30, 2005, Calloway County was in compliance with the terms of the agreement. The principal balance as of June 30, 2005 was \$105,868. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 46,189	\$ 4,298
2007	47,567	1,952
2008	12,112	114
Totals	<u>\$ 105,868</u>	<u>\$ 6,364</u>

**F. Changes In Long-term Debt**

Long-term debt activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Revenue Bonds	\$ 6,980,000	\$	\$ 365,000	\$ 6,615,000	\$ 390,000
Financing Obligations	98,518	289,630	69,110	319,038	127,275
Governmental Activities					
Long-term Debt	<u>\$ 7,078,518</u>	<u>\$ 289,630</u>	<u>\$ 434,110</u>	<u>\$ 6,934,038</u>	<u>\$ 517,275</u>

**Note 6. Interest On Short-term Debt, Long-term Debt, and Financing Obligations**

Debt Service on the Statement of Activities includes \$8,185 in interest on financing obligations and \$368,028 in interest on revenue bonds.

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 7. Commitments and Contingencies**

**A. Contingent Liability-Hospital Bonds**

On May 1, 2002, Calloway County (County) and the City of Murray (City) issued the Murray-Calloway County Public Hospital Corporation First Mortgage Revenue Refunding Bonds, Series 2002 in the amount of \$5,424,000. These bonds were issued to expand the hospital and refinance certain obligations of the hospital's nursing home issued in June 1992. The City and County sublease the hospital and nursing home to the Murray-Calloway County Public Hospital Corporation (Corporation) for yearly rental payments equal to the annual requirements on the bonds. This agreement is renewable annually. In case of default by the Corporation, the City and County are each liable for fifty percent of the bond debt requirement.

Bonds outstanding as of June 30, 2005 were \$3,750,000. Future principal and interest payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 885,000	\$ 138,848
2007	915,000	105,075
2008	955,000	67,416
2009	175,000	43,663
2010	190,000	35,308
2011-2013	<u>630,000</u>	<u>47,735</u>
Totals	<u>\$ 3,750,000</u>	<u>\$ 438,045</u>

**B. Contingent Receivable-Economic Development Grant**

In 2003, Calloway County was awarded an Economic Development Grant from the Kentucky Cabinet for Economic Development for \$800,000. The purpose of the grant was intended for the county to loan this money to the Murray-Calloway County Economic Development Corporation with the understanding that the Economic Development Corporation would loan these funds to the Pella Corporation, a new business locating in Murray, KY. The terms of the loan agreement as stipulated in the grant agreement state that the loan would be repaid in five (5) annual payments of \$160,000 each starting in December 2005. However, the grant agreement and loan agreement also stipulate that the annual payments would be forgiven if the Pella Corporation met certain job requirements as spelled out in the agreements.

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2006	\$ 160,000
2007	160,000
2008	160,000
2009	160,000
2010	<u>160,000</u>
Totals	<u>\$ 800,000</u>



**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 8. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Deferred Compensation**

The Calloway County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 10. Insurance**

For the fiscal year ended June 30, 2005, Calloway County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 11. Prior Period Adjustments**

Due to misstatements reported in the prior year audit report, the beginning balances for assets, liabilities, and fund balances have been restated. The effect of this change on the beginning net assets is a decrease of \$26,543 in the governmental activities and an increase of \$2,145 in the business-type activities. See table below.

	Beginning Balances FYE 6/30/04	Prior Period Adjustments	(Restated) Beginning Balances FYE 6/30/04
<u>Governmental Activities</u>			
<b>Assets</b>			
Current Assets			
General Fund	\$ 257,970	\$	\$ 257,970
Road Fund	84,941		84,941
Jail Fund	16,068		16,068
Jail Construction Fund	2,911,296	(20,091)	2,891,205
Jail Grant Fund	1,249,318	(6,451)	1,242,867
Public Properties Corporation Fund	965,361		965,361
LGEA Fund			
CDBG Fund	1		1
Total Current Assets	5,484,955	(26,542)	5,458,413
Noncurrent Assets (Net Accumulated Depreciation)			
Land and Land Improvements	688,076		688,076
Buildings	8,457,621		8,457,621
Other Equipment	742,950		742,950
Vehicles and Equipment	249,593		249,593
Infrastructure	290,365		290,365
Total Noncurrent Assets	10,428,605		10,428,605
Total Assets	15,913,560	(26,542)	15,887,018
<b>Liabilities</b>			
Current Liabilities			
Due Within One Year	396,408		396,408
Total Current Liabilities	396,408		396,408
Noncurrent Liabilities			
Due In More Than One Year	6,682,109	1 *	6,682,110
Total Noncurrent Liabilities	6,682,109	1	6,682,110
Total Liabilities	7,078,517	1	7,078,518

**CALLOWAY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 11. Prior Period Adjustments (Continued)**

	Beginning Balances FYE 6/30/04	Prior Period Adjustments	(Restated) Beginning Balances FYE 6/30/04
<u>Governmental Activities</u> (Continued)			
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	\$ 3,059,723	\$ (1) *	\$ 3,059,722
Infrastructure Assets	290,365		290,365
Restricted for:			
Encumbrances	197,637		197,637
Capital Projects	4,160,614	(26,542)	4,134,072
Debt Service	965,361		965,361
Unrestricted	161,343		161,343
Total Net Assets	<u>\$ 8,835,043</u>	<u>\$ (26,543)</u>	<u>\$ 8,808,500</u>
<u>Business-type Activities</u>			
Assets			
Current Assets			
Jail Canteen	\$ 40,126	\$ 2,145	\$ 42,271
Total Current Assets	<u>\$ 40,126</u>	<u>\$ 2,145</u>	<u>\$ 42,271</u>

\* Difference/adjustment due to rounding.

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**CALLOWAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,826,559	\$ 1,826,559	\$ 1,977,121	\$ 150,562
In Lieu Tax Payments	164,912	164,912	165,094	182
Excess Fees	156,300	156,300	122,728	(33,572)
Licenses and Permits	50,130	50,130	50,654	524
Intergovernmental Revenue	443,154	760,131	488,256	(271,875)
Charges for Services	10,000	10,000	11,654	1,654
Miscellaneous	1,305,900	1,305,900	1,044,158	(261,742)
Interest Earned	5,000	5,000	1,346	(3,654)
Total Revenues	3,961,955	4,278,932	3,861,011	(417,921)
<b>EXPENDITURES</b>				
General Government	1,463,863	2,000,474	1,761,042	239,432
Protection to Persons and Property	89,514	145,110	118,655	26,455
General Health and Sanitation	155,382	171,077	145,830	25,247
Social Services	68,000	70,100	47,726	22,374
Recreation and Culture	121,099	121,099	194,416	(73,317)
Bus Services			47,790	(47,790)
Debt Service	142,000	73,317	11,638	61,679
Capital Projects	160,931	60,801	35,678	25,123
Administration	1,602,342	1,405,696	1,148,791	256,905
Total Expenditures	3,803,131	4,047,674	3,511,566	536,108
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	158,824	231,258	349,445	118,187
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	142,000	142,000	22,790	(119,210)
Transfers From Other Funds	5,000	5,000	600,000	595,000
Transfers To Other Funds	(606,790)	(1,166,790)	(1,120,000)	46,790
Total Other Financing Sources (Uses)	(459,790)	(1,019,790)	(497,210)	522,580
Net Changes in Fund Balance	(300,966)	(788,532)	(147,765)	640,767
Fund Balance - Beginning	300,966	300,966	257,970	(42,996)
Fund Balance - Ending	\$	\$ (487,566)	\$ 110,205	\$ 597,771

\*\*

\*\* See Notes to Required Supplementary Information

**CALLOWAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,094,972	\$ 1,290,376	\$ 1,260,464	\$ (29,912)
Charges For Services	2,000	2,000		(2,000)
Miscellaneous	91,000	231,693	170,468	(61,225)
Interest Earned	2,100	2,100	418	(1,682)
Total Revenues	<u>1,190,072</u>	<u>1,526,169</u>	<u>1,431,350</u>	<u>(94,819)</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property			193,818	(193,818)
Roads	1,362,062	1,754,390	1,798,050	(43,660)
Debt Service	212,000	359,549	77,110	282,439
Capital Projects	100,000	125,568	52,161	73,407
Administration	282,800	190,827	157,255	33,572
Total Expenditures	<u>1,956,862</u>	<u>2,430,334</u>	<u>2,278,394</u>	<u>151,940</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(766,790)</u>	<u>(904,165)</u>	<u>(847,044)</u>	<u>57,121</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	140,000	140,000	289,630	149,630
Transfers From Other Funds	606,790	766,790	720,000	(46,790)
Transfers To Other Funds			(200,000)	(200,000)
Total Other Financing Sources (Uses)	<u>746,790</u>	<u>906,790</u>	<u>809,630</u>	<u>(97,160)</u>
Net Changes in Fund Balance	(20,000)	2,625	(37,414)	(40,039)
Fund Balance - Beginning	<u>20,000</u>	<u>84,941</u>	<u>84,941</u>	
Fund Balance - Ending	<u>\$</u>	<u>\$ 87,566</u>	<u>\$ 47,527</u>	<u>\$ (40,039)</u>

\*\*

\*\* See Notes to Required Supplementary Information



**CALLOWAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 932,000	\$ 932,000	\$ 1,195,047	\$ 263,047
Charges for Services	32,000	32,000	16,917	(15,083)
Miscellaneous	35,000	35,000	109,514	74,514
Interest Earned	1,000	1,000	334	(666)
Total Revenues	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,321,812</u>	<u>321,812</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,179,230	1,226,745	1,083,615	143,130
Administration	254,750	207,235	157,375	49,860
Total Expenditures	<u>1,433,980</u>	<u>1,433,980</u>	<u>1,240,990</u>	<u>192,990</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(433,980)</u>	<u>(433,980)</u>	<u>80,822</u>	<u>514,802</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>433,980</u>	<u>433,980</u>	<u>120,000</u>	<u>(313,980)</u>
Total Other Financing Sources (Uses)	<u>433,980</u>	<u>433,980</u>	<u>120,000</u>	<u>(313,980)</u>
Net Changes in Fund Balance			200,822	200,822
Fund Balance - Beginning			<u>16,068</u>	<u>16,068</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 216,890</u>	<u>\$ 216,890</u>

**CALLOWAY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>JAIL GRANT FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 153,065	\$ 153,065	\$ 153,065	\$
Interest Earned	21,000	21,000	32,415	11,415
Total Revenues	174,065	174,065	185,480	11,415
<b>EXPENDITURES</b>				
Capital Projects	1,238,065	1,238,065		1,238,065
Total Expenditures	1,238,065	1,238,065		1,238,065
Excess (Deficiency) of Revenues Over Expenditures	(1,064,000)	(1,064,000)	185,480	1,249,480
Net Changes in Fund Balances	(1,064,000)	(1,064,000)	185,480	1,249,480
Fund Balances - Beginning (Restated)	1,064,000	1,064,000	1,242,867	178,867
Fund Balances - Ending	\$	\$	\$ 1,428,347	\$ 1,428,347

**CALLOWAY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The final budgeted amounts for revenues and expenditures are not equal for the General Fund or the Road Fund individually in the budgetary comparison schedules. However, if you also take into account the revenues and expenditures of the Jail Construction Fund, which is a Capital Projects Fund of the County, you can see that the total revenues and expenditures do equal. See table below.

<u>Budgeted Major Funds</u>	<u>Budgeted Revenues</u>	<u>Budgeted Expenditures</u>	<u>Variance</u>
General Fund	\$ 3,560,108	\$ 4,047,674	\$ (487,566)
Road Fund	2,517,900	2,430,334	87,566
Jail Fund	1,433,980	1,433,980	
Jail Grant Fund	1,238,065	1,238,065	
Jail Construction Fund	3,170,580	2,770,580	400,000
	<u>\$ 11,920,633</u>	<u>\$ 11,920,633</u>	<u>\$ 0</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**CALLOWAY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**



**CALLOWAY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

	<b>LGEA Fund</b>	<b>CDBG Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	\$ 1	\$ 1
Total Assets	<u>\$</u>	<u>\$ 1</u>	<u>\$ 1</u>
<b>FUND BALANCES</b>			
Unreserved:			
General Fund***	\$	\$ 1	\$ 1
Total Fund Balances	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 1</u>

\*\*\* No activity occurred in this fund for the current fiscal year. Since this is county money used to keep the fund active at the county's financial institution and not related to CDBG funds, this fund balance was classified as General Fund.

THIS PAGE LEFT BLANK INTENTIONALLY



**CALLOWAY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**



**CALLOWAY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

	<b>LGEA Fund</b>	<b>CDBG Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental Revenue	\$ 8,047	\$	\$ 8,047
Total Revenues	<u>8,047</u>		<u>8,047</u>
<b>EXPENDITURES</b>			
Roads	<u>8,047</u>		<u>8,047</u>
Total Expenditures	<u>8,047</u>		<u>8,047</u>
Excess (Deficiency) of Revenues Over Expenditures			
Fund Balances - Beginning		<u>1</u>	<u>1</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 1</u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Larry Elkins, Calloway County Judge/Executive  
Members of the Calloway County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 3, 2006. Calloway County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Calloway County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Calloway County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying comments and recommendations.

- The Accounting System Of The Calloway County Jail Should Be Improved

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Calloway County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Vending Machine Funds Should Be Accounted For Properly - Courthouse
- Vending Machine Funds Should Be Accounted For Properly - Jail
- Jail Canteen Funds Should Be Properly Expended In Accordance With KRS 441.135
- Debt Service Expenditures Should Be Properly Classified

This report is intended solely for the information and use of Calloway County Fiscal Court and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 3, 2006



**CALLOWAY COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2005**



**CALLOWAY COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2005**

STATE LAWS AND REGULATIONS

Vending Machine Funds Should Be Accounted For Properly - Courthouse

The County Judge/Executive notified the auditors of a “vending machine account” after inquiry, which was being held in the courthouse. Receipts were not deposited into an official bank account and expenditures were made in cash. There was not an account at a bank to record the transactions of these funds. These vending machines were located in the hallway of the courthouse.

The County Judge/Executive’s disbursements indicated that the vending machine activities started February 28, 2003: had cash receipts of at least \$13,997; cash disbursements of \$12,866; and an ending cash balance of \$1,131 as of October 4, 2006. The disbursements consisted of: vending supplies \$10,150; cash \$131, gifts/greeting cards \$58; meals \$2,431; office supplies \$51; and miscellaneous expenditures \$45. Total disbursements of \$12,866 are based solely on the available records. Funds from vending machine sales located in the courthouse should have been deposited with the County Treasurer.

KRS 68.210 requires all local government officials and employees to adhere to minimum requirements when handling public funds. These requirements include that daily deposits be made into a federally insured banking institution. These cash receipts were maintained at the courthouse and never remitted or disclosed to the County Treasurer for deposit into a bank account.

Cash expenditures were not presented to or approved by fiscal court, nor are these expenditures reflected in the General Fund budget. KRS 68.275 requires that the County Judge/ Executive shall pay claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court by a warrant drawn on the county and co-signed by the County Treasurer. The County Judge/Executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.

In the future, we recommend that the County Judge/Executive comply with KRS 68.210, and KRS 68.275. We recommend that the fiscal court review all cash disbursements made from this account. If claims or expenditures are not approved by fiscal court, we recommend that the fiscal court take the necessary action to see that this fund is appropriately accounted for so as to be in compliance with these statutes.

*County Judge/Executive Larry Elkins’ Response: Historically, the vending machines have been handled in this manner (last 30 years). We will comply in the future by placing money in county treasury or remove machines.*

**CALLOWAY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

STATE LAWS AND REGULATIONS (CONTINUED)

Vending Machine Funds Should Be Accounted For Properly - Jail

The Jailer notified the auditors of a “vending machine account”, after inquiry, which was being held at the Jail. Receipts were not deposited into an official bank account and expenditures were made in cash. There was not an account at a bank to record the transactions of these funds. These vending machines were located in the lobby of the jail where the public could make purchases.

The Jailer’s disbursements indicated that the vending machine activities started January 15, 1999: had cash receipts of at least \$14,777; cash disbursements of \$13,885; and an ending cash balance of \$892 as of September 19, 2006. Disbursements consisted of: vending supplies \$9,797; flowers \$728, Christmas decorations \$954; birthday parties \$819; gifts/donations \$719; inmates dinners and movie \$414; transporting \$50; lunches \$124; and miscellaneous expenditures \$280. Total disbursements of \$13,885 are based solely on the available records.

Cash from the “vending machine account” located in the lobby of the Jail would be used to purchase items for re-sale to the inmates and then the profits would be donated to a charitable organization. These profits should have been deposited into the Jail Canteen Fund to be used for the inmates as required by KRS 441.135 (2). Funds from vending machine sales to the public or jail staff should have been deposited with the County Treasurer.

KRS 68.210 requires all local government officials and employees to adhere to minimum requirements when handling public funds. These requirements include that daily deposits be made into a federally insured banking institution. These cash receipts were maintained at the jail and never remitted or disclosed to the County Treasurer for deposit into a bank account.

Cash expenditures were not presented to or approved by fiscal court, nor are these expenditures reflected in the General Fund or Jail Fund budget. KRS 68.275 requires that the County Judge/Executive shall pay claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court by a warrant drawn on the county and co-signed by the County Treasurer. The County Judge/Executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.

In the future, we recommend that the Jailer comply with KRS 441.135(2), KRS 68.210, and KRS 68.275. We recommend that the fiscal court review all cash disbursements made from these accounts (with the exception of the jail canteen account). If claims or expenditures are not approved by fiscal court, we recommend that the fiscal court take the necessary action to see that these funds are appropriately accounted for so as to be in compliance with these statutes.

*County Judge/Executive Larry Elkins’ Response: Jailer responded.*

*County Jailer Phil Hazle’s Response: The machine was donated to the Jail and I will discuss this issue with Fiscal Court.*

**CALLOWAY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

STATE LAWS AND REGULATIONS (CONTINUED)

Jail Canteen Funds Should Be Properly Expended In Accordance With KRS 441.135

According to KRS 441.135, canteen “profits” should be used “for the benefit and to enhance the well being of the prisoners”. During our testing of the jail canteen “profits”, we noted two (2) instances where this “profit” was not used for this purpose. One instance, “profits” were paid to a jail employee for filing (\$49). Another instance, “profits” were paid to Relay for Life as a donation (\$938). We would like to remind the Jailer of the requirements of this statute and to comply with it in the future.

*County Judge/Executive Larry Elkins’ Response: Jailer responded.*

*County Jailer Phil Hazle’s Response: This was a fundraiser for Relay for Life for American Cancer Society and the inmates that participated knew what the fundraiser benefited. They did not have to participate.*

Debt Service Expenditures Should Be Properly Classified

KRS 68.210 requires proper classification of expenditures. Our testing of debt service expenditures revealed transactions in the amount of \$348,989 improperly posted to debt service accounts. Specifically identified in this amount were expenditures for road equipment, tank fees, environmental cleanup, park matching grant funds, and trustee fees, all of which should be properly posted to operating expenditure accounts. We recommend the proper classification of debt service and operating expenditures in the future.

*County Judge/Executive Larry Elkins’ Response: Will comply.*

REPORTABLE CONDITION

The Accounting System Of The Calloway County Jail Should Be Improved

The Jailer had three (3) bank accounts: Old Commissary Bank Account (Regions Bank); New Commissary Bank Account (The Murray Bank); and an Escrow Bank Account (The Murray Bank). The commissary bank accounts have both commissary and inmate monies in them. The Jailer is in the process of closing the old commissary bank account.

Based on our review, we found the following weaknesses in the accounting system:

- Commissary sales could not easily be determined under the current system. The software system must be able to distinguish between inmate, commissary, and escrow funds.
- A “Fund Balance” (total assets less total liabilities) available in the account could not be determined each month. The software system currently used does not allow the user to easily retrieve historical data; therefore, a report disclosing each inmate’s account balance should be generated at the end of each month.

**CALLOWAY COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

REPORTABLE CONDITION (CONTINUED)

The Accounting System Of The Calloway County Jail Should Be Improved (Continued)

- Based on our understanding of the current software - transactions can be deleted with no ability to retrieve the entry - the system is vulnerable when one person is responsible for all posting activities. We recommend the Jailer explore the possibility of obtaining an integrated software system.

The software system currently used does not allow the user to determine a true fund balance that can be audited. Therefore, we were unable to reconcile the bank accounts to the books as of June 30, 2005. We recommend the Jailer update the existing software and accounting system to improve internal controls over public funds.

*County Judge/Executive Larry Elkins' Response: Jailer responded.*

*County Jailer Phil Hazle's Response: New software system will meet future needs.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**CALLOWAY COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**

Appendix A

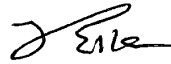




**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**CALLOWAY COUNTY FISCAL COURT**

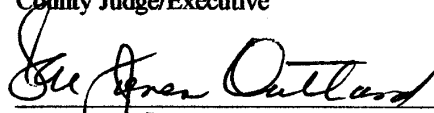
For The Fiscal Year Ended June 30, 2005

The Calloway County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



---

Larry Elkins  
County Judge/Executive



---

Sue Outland  
County Treasurer

